

# *The State Policy Processes of Tax and Expenditure Limitations in the U.S.*

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## **The State Policy Processes of Tax and Expenditure Limitations in the U.S.**

**Abstract:** Previous research and theory on policy innovation and diffusion have developed explanatory factors for the adoption of TELs. However, past research on which states adopt TELs have only examined the first adoption dates. However, since the state policy making regarding TELs is more complicated—TELs have been proposed and failed, and multiple TELs have been passed since 1970. These previous studies have limitations and have not considered the comprehensive policy making process of TELs adoption and revision. In this respect, this research empirically examines the differentiated process of adoptions through event history analysis (EHA) using state data from 1970 to 2006. This study reveals the comprehensive policy making process of TEL adoption that can be summarized as follows: (1) having a direct democracy initiative continuously affects the adoption process of TELs; (2) states will imitate other similar states' TELs based on size (expenditure) during the agenda setting process; and (3) Enactment failure of TELs is induced by anticipatory competition that states behave strategically, and successful passage of TELs are driven by direct democracy, and professionalized legislature rather than regional diffusion factors.

**Keywords:** Tax and Expenditure Limitations, Competition, Imitation, Direct democracy

## Introduction

The main purpose of this research is to examine factors that affect the Tax and Expenditure Limitations (TELS) adoptions by states. Particularly during the tax revolt of the 1970s, direct democracy processes established many state TELS (Rose, 2010). TELS are intended to limit the amount of state revenues or expenditure that ultimately seeks to restrict the growth of state government (Bowler & Donovan, 2004: 189). In 1976, the state of New Jersey first adopted a tax and expenditure limit, and TELS expanded to 31 states by 2006. New Jersey TELS imposed limits on general expenditure and expired in 1983 (Glickman & Painter, 2004). There are five main types of TELS: (1) “limits on revenue based on an index of income, inflation, and/or population growth”, (2) “limits on expenditures based on an index of income, inflation, and/or population growth” (most states adopted expenditure limits), (3) “limits that restrict appropriations to 95~99% of the official revenue forecast”, (4) “requirements that voters must approve tax increases”, and (5) “legislative supermajority requirements for tax increases” (Rose, 2010: 823).

This research focuses on (1) to (3) because the intended purpose of TELS is to restrict growth of revenue and expenditures rather than tax increases. Thus, it is appropriate to focus on these three aspects. More importantly, state variations in adoptions are identified whether states propose TELS through citizen initiatives, legislative referenda or constitutional amendments (State legislatures) and actual enactment through citizen initiatives, state legislatures and referendum procedures (New, 2010; Rafool, 2006; Seljan & Weller, 2011).

Despite the numerous research studies dealing with policy innovation diffusion in other policy areas including abortion (Mooney & Lee, 1995), same sex marriage bans (Haider-Markel, 2001), death penalty (Mooney & Lee, 1999), children’s health insurance program (Volden, 2006), lotteries (Berry & Baybeck, 2005), and casinos and gambling (Richard, 2010), few studies have been conducted to examine the factors that affect the innovation and diffusion of Tax and Expenditure Limitations (TELS). Further, limited research has been conducted to analyze the different mechanisms of policy adoption in terms of initiation and enactment by States. Studies focus on either agenda setting (Seljan & Weller, 2011) or passage of TELS (Alm & Skidmore, 1999). That is, limited research has been conducted to analyze the different dynamics of the policy process—in this case, when a bill is proposed, and when a bill is either enacted or defeated.

More importantly, the influence of institutions on agenda setting is quite distinct from the effect of institutions on decision making (Zohlnhöfer et al., 2015). Comparing to the decision making or subsequent states in the policy cycle, the role of institutions on agenda setting is less influential (Baumgartner et al., 2009). The Kingdon’s original framework on agenda setting is frequently adopted to account for decision making, and institutions have less influence on agenda setting process than decision making (Zohlnhöfer et al., 2015). Thus, different mechanisms of agenda setting and decision making are expected.

In this respect, this research focuses on the primary research question: “Are proposals of TELS caused by similar or different reasons than actual enactment? And is failure to enact TELS caused by different reasons than successful enactment of TELS?” It is expected that the underlying logic behind Tax and Expenditure adoption and diffusion is similar to that of other

diffusion cases such as lottery, gambling, and tax adoptions in terms of competition, imitation, and rational learning (Baybeck et al., 2011; Berry & Berry, 1990, 1992; Berry & Baybeck; 2005; Burge & Piper, 2012; Calcagno et al., 2010; Seljan & Weller, 2011). In addition, the dynamics of state politics have had a crucial impact on the adoption of these policies. Furthermore, I expect taxation-related conditions in each state to also affect the adoption of TELs.

Thus, this study would have great implications on state governments regarding the factors for TELs adoption in terms of the general diffusion framework, the policy process, the dynamics of state politics and taxation, using event-history analysis to explain different mechanisms of the proposed initiatives and actual enactment of policy. Since the state TELs emerged through direct democracy and state initiatives, and the stated purpose of TELs, in part, is to restrict growth in tax revenue and expenditures, this study will focus on direct democracy and tax related conditions as well as regional diffusion factors that have been emphasized in previous literature (Baybeck et al., 2011; Berry & Berry, 1990, 1992; Berry & Baybeck; 2005; Burge & Piper, 2012; Calcagno et al., 2010; Seljan & Weller, 2011).

This study begins with a literature review of diffusion studies in tax and tax limitations, then this research will present the hypotheses to be tested, followed by a discussion of the data and methods used. Finally, this study will present and discuss the findings.

### **Research on Tax and Expenditure Limitations (TELs)**

Several studies focused on the case studies with limited number of states that successfully enacted TELs (Cox & Lowery 1990; King-Meadows & Lowery 1996); other studies analyzed the impact of TELs on budgetary outcomes with quite limited time frame (Abrams & Dougan 1986; Bails & Tieslau, 2000); and other studies did not apply regression based analysis (Bails 1990; Howard, 1989; Kenyon & Benker, 1984). On the contrary, several comprehensive current studies applying regression analysis reveal that the effect of TELs on restricting state expenditures and revenues is limited (Joyce & Mullins 1991, 1996; Shadbegian, 1996; Bae & Jung, 2011; Guo, 2011). Two notable studies are identified in terms of this research.

Alm & Skidmore (1999) examined the probability of TELs passage in state elections from 1978 to 1990 by conducting maximum likelihood estimation. According to their analysis, increase in property taxes and local revenue share of state revenues have negative relationship with the likelihood of TEL enactment. On the other hand, an increase in total state tax revenues decreases the possibility of TEL enactment. Further, other factors such as changes in level of income and variations in the tax price of public services in state and local governments are crucial factors of TEL enactment over time. Seljan & Weller (2011) directly examined the determinants of proposals in TELs in terms of information by conducting duration analysis. According to their analysis, neighboring states with defeated TELs have negative relationship with agenda setting of TELs in home states. In addition, direct democracy, gubernatorial election, older population, school age population all increase the possibility of agenda setting in TELs. These two studies provide significant factors for agenda setting and passage of TELs. However, these research studies fail to consider the comprehensive policymaking process of TELs adoption.

### **Research on Tax Innovation and Diffusion**

Since Tax and Expenditure Limitations (TEs) involve restrictions on the amount of taxes levied, a review of the extant literature on tax innovation and diffusion is called for. The studies on tax innovation and diffusion, which have looked at this phenomenon across countries, states, and local jurisdictions, have identified several key factors including fiscal health, rational learning, tax burden and competition (Aidt & Jensen, 2009; Baturó & Gray, 2009; Berry & Berry, 1992; Burge & Piper, 2012; Kim et al., 2009; Zhao, 2005). In addition, the unique contribution of Berry & Berry (1992) was the significance of election cycles, while government ideology and direct democracy (suffrage) were also identified by Aidt & Jensen (2009) and Baturó & Gray (2009). Further, imitation, growth in real per capita income, competition, and population density were significant factors for tax adoption (Burge & Piper, 2012; Kim et al., 2009; Zhao, 2005).

Generally, these studies provide the major factors that affect the adoption of taxes, including fiscal health, election cycle, party control, competition and regional diffusion including imitation, spending pressures (fiscal stress), population and tax burden. Since Tax and Expenditure Limitations involve a tax cut (related to a tax), these factors would serve as underlying factors for the adoption. However, these research studies fail to provide factors that directly affect the adoption of Tax and Expenditure Limitations. Thus, there is a need for further research that studies the factors that have a direct effect on the adoption of TEs.

## **Main Hypotheses**

### **Tax and Fiscal Factors**

#### **Tax Burden**

One of the primary purposes of TEs is in part to limit the amount of state revenues or expenditures that ultimately seeks to restrict the growth of state government (Bowler & Donovan, 2004, p.189). The adoption of TEs is associated with the variation in the tax price of a median voter regarding public services (Alm & Skidmore, 1999). An increase in support for TEs is driven by both high level and growth of total tax burden (Alm & Skidmore, 1999). However, since taxes and expenditures are interrelated, high and growth in taxes would illustrate the demand for more public services (Alm & Skidmore, 1999). In this case, a higher level of overall tax burden will reduce the possibility of states passing TEs. In addition, the property tax burden will likely affect the adoption procedure of TEs because the property tax burden is more visible than the sales tax burden (Alm & Skidmore, 1999). Empirical evidence suggests that an increase in property tax revenues and local revenue share of state tax revenues are positively associated with the adoption of TEs, and contrarily, that an increase in total taxes decreases the likelihood of the adoption of TEs (Alm & Skidmore, 1999). Since the stated purpose of TEs is, in part, to restrict growth of state revenue and spending, it is expected that a higher level of overall tax and property tax burden is positively associated with the adoption process of TEs.

*Hypothesis 1-a:* The likelihood of a state that proposes TEs increases with a higher level of overall tax burden and a higher level of property tax burden.

*Hypothesis 1-b:* The likelihood of a state that proposes and fails in enactment of TELs increases with a higher level of overall tax burden and a lower level of property tax burden.

*Hypothesis 1-c:* The likelihood of a state that enacts TELs increases with a higher level of overall tax burden and a higher level of property tax burden.

### **Fiscal Health**

Economic growth is associated with the preference for TELs (Alm & Skidmore, 1999; Temple, 1996; Thompson & Green, 2004). Previous studies suggest that fiscal health or fiscal stress (spending pressure) is considered to be one of the most crucial factors in adopting tax innovations (Berry & Berry, 1990, 1992; Zhao, 2005; Aidt & Jensen, 2009; Burge & Piper, 2009). The stated purpose of TELs involves the limitation in the amount of state revenues or expenditure that ultimately seeks to restrict the growth of state government (Bowler & Donovan, 2004: 189). Empirical evidence suggests that a downside of economic boom is related to the opposition of taxes and preference for tax limitation (Alm & Skidmore, 1999). Thus, it is expected that fiscal health will affect the adoption process of TELs.

*Hypothesis 2-a:* States in good fiscal health are more likely to propose TELs.

*Hypothesis 2-b:* States in poor fiscal health are less likely to pass TELs.

*Hypothesis 2-c:* States in good fiscal health are more likely to pass TELs.

### **Direct Democracy and Citizen Ideology**

At the local level, the state of California first adopted direct democracy process that allows citizen participation (Matsusaka, 2005). State and/or city with direct democracy processes influence over two thirds of their citizens (Matsusaka, 2005). Regarding fiscal institutions, direct democracy states are more likely to adopt legislative term limits, TELs, and supermajority vote requirements for taxation (Tolbert, 1998). Empirical research suggests that voter's perception on reducing taxes as well as opting for current level of spending is positively associated with preference for TELs (Courant et al., 1980, Ladd & Wilson, 1982). Enhancing citizen control and/or efficiency of government serve as the most supporting argument for adopting TELs, and it is evidenced by the Proposition 2 ½ in Massachusetts that it sought for reducing taxes and achieving efficiency for government rather than reducing the amount of taxes for public services (Courant et al., 1980, Ladd & Wilson, 1982).

Seven states including Michigan, California, Washington, Missouri, Massachusetts, Colorado, and Washington enacted TELs through citizen initiatives (New, 2011). Empirical evidence suggests that states with initiative mechanism and an increase in the number of initiatives per year (proxy for direct democracy) significantly increased the probability of TELs proposal (Seljan & Weller, 2011). In addition, states with initiative mechanism increases the possibility of TELs proposals (Lupia et al., 2010). Thus, the proposal and actual enactment of TELs are associated with citizen initiatives.

*Hypothesis 3-a:* The likelihood that a state will propose TELs increases when the number of citizen initiatives or referendums increases.

*Hypothesis 3-b:* The likelihood that a state will propose and fail in the enactment of TELs increases as the number of citizen initiatives or referendums decreases.

*Hypothesis 3-c:* The likelihood that a state will enact TELs increases when the number of citizen initiatives or referendums increases.

In line with citizen initiatives, states with more ideologically liberal citizenry have higher levels of taxes and spending (Camobreco, 1998; Crain, 2003). Empirical evidence suggests that popular liberalism decreased the probability of proposing TELs (Alm & Skidmore, 1999). Thus, citizen ideology would affect the adoption procedure of TELs.

*Hypothesis 4-a:* The likelihood that a state will propose a TEL increases with a lower degree of popular liberalism.

*Hypothesis 4-b:* The likelihood that a state proposes and fails in the enactment of TELs varies by degree of liberalism.

*Hypothesis 4-c:* The likelihood of a state enacting a TEL decreases with popular liberalism.

## **Regional Diffusion Factors**

Diffusion models conceive the policy adoption processes of state governments as “emulating the behavior of other states” according to the following five factors (Berry & Berry, 2014): 1) Learning; 2) Imitation; 3) Normative Pressure; 4) Competition; 5) Coercion. At the state level, imitation, learning and competition will affect the adoption of Tax and Expenditure Limitations (e.g., Simmons et al., 2006). These are each explained below.

### **Imitation**

Imitation occurs when one government emulates the policy of other governments to experience similar policy outcomes (Shipan & Volden, 2008). Concretely, elected officials perceive other jurisdictions as worthy of emulation, which facilitates the adoption of any policy independently of any definitive evaluation of its character or its effectiveness (Simmons et al., 2006; Meseguer, 2006; Karch, 2007).

Imitation can occur from the similar characteristics of states including ideological, demographic, and budgetary (economic resemblance), rather than geographic proximity (Abbott & DeViney, 1992; Dolowitz & Marsh, 1996; Grossback et al., 2004; Volden, 2006). In this sense, states are likely to imitate TELs based on budget similarities, which accounts for the size of government and measured by total expenditures (Afonso & Furceri, 2010; Agell et al., 2006;

Bergh & Karlsson, 2010). Thus, it can be seen that states will likely imitate the adoptions of TELs based on a similar size of government.

*Hypothesis 5-a:* The likelihood that a state will propose TELs increases when states with similar size (expenditure) previously propose TELs increases.

*Hypothesis 5-b:* The likelihood that a state will propose and fail in enacting TELs increases when states with similar size (expenditure) previously proposed and failed in the enactment of TELs increases.

*Hypothesis 5-c:* The likelihood that a state will enact TELs increases when other states with similar size (expenditure) previously enacted TELs increases.

### **Competition**

Policy diffusion via competition occurs from motivation of the elected officials to accomplish an economic advantage over other jurisdictions or to avoid other jurisdictions securing an advantage over them (Meseguer & Gilardi, 2009). Certain jurisdictions adopt a policy to induce individuals to obtain items within certain jurisdiction or to go elsewhere to acquire goods as suggested by location choice competition (Berry & Berry, 1990, 1992; Berry & Baybeck, 2005; Meseguer & Gilardi, 2009; Calcagno et al., 2010; Baybeck et al., 2011; Burge & Piper, 2012). Especially, tax competition theory suggests that independent governments engage in tax and spending reduction in order to secure their capital (National Tax Journal, 1999).

Notably, the concept of competition involves two dimensions: defensive or anticipatory behavior (Baybeck et al., 2011). Defensive competition explains that states adopt defensive competition strategies to prevent citizens or companies from moving to other states due to tax and expenditure limitations. The concept of defensive competition is applied when neighboring states first adopt TELs and home states follow the neighboring states in adopting TELs (Baybeck et al., 2011). On the other hand, anticipatory competition explains that the probability of home states adopting TELs decreases when there is less chance that neighboring states will develop a monopoly in TELs (Baybeck et al., 2011). The concept of anticipatory competition is based on the fact that home states anticipate neighboring states' increased probability of adoption, but recognize that they have less chance of becoming a monopoly of TELs, which reduces the home states' likelihood of adoption (Baybeck et al., 2011). Thus, it is expected that defensive or anticipatory competition among neighboring states is expected during the adoption procedure of TELs.

*Hypothesis 6-a:* The likelihood that a state will propose TELs increases when neighboring states previously succeed in proposing TELs.

*Hypothesis 6-b:* The likelihood that a state will propose and fail to enact TELs increases when neighboring states previously proposed and failed to enact TELs.

*Hypothesis 6-c:* The likelihood that a state will enact TELs increases when neighboring states previously enacted TELs.

### **Learning**

Learning occurs when elected officials in one jurisdiction derive information about success of policies from previously adopted jurisdictions (Levy, 1994; Braun & Girardi, 2006). Policy diffusion occurs when a jurisdiction is highly affected by the success of other jurisdictions that previously adopted policies that have been effective (Volden, 2006). Since the success of TELs depends on effectively reducing state tax revenues and expenditures, it is expected that adoption of TELs is associated with increases or decreases (including *status quo*) in either state tax revenues or expenditures. In the context of agenda setting, it can be seen that states learn from the successes and failures of policies in other states. Empirical evidence suggests that both successful and failed proposals elsewhere significantly affect the likelihood of proposals for TELs (Seljan & Weller, 2011). Thus, the following competing hypotheses are tested for agenda setting.

#### *Successful Hypothesis for Agenda Setting*

*Hypothesis 7-a:* The likelihood that a state will propose TELs increases when the tax revenues or expenditures of states previously adopting TELs increase.

#### *Failure Hypothesis for Agenda Setting*

*Hypothesis 7-a-1:* The likelihood that a state will propose TELs decreases when the tax revenues or expenditures of states previously adopting TELs decrease or remain the same.

*Hypothesis 7-b:* The likelihood that a state will propose and fail in enactment of TELs increases when the tax revenues or expenditures of states that previously failed with TELs increase.

*Hypothesis 7-c:* The likelihood that a state will enact a TEL increases when the tax revenues or expenditures of states previously enacting TELs decrease.

### **Other Factors (Control Variables)**

For political and institutional factors, empirical evidence suggests that unified Republican states reduce the level of both state and local revenues (New, 2011). In general, the Republicans are regarded as more fiscally conservative and more skeptical of government than the Democratic Party. On the other hand, empirical evidence shows that, unified Republicans are more likely to oppose TELs (Alm & Skidmore, 1999). Especially, it is expected that institutional liberalism will be positively associated with TELs because citizen's fear for increasing tax and spending from preference of government might generate citizen's support for tax limits (Seljan & Weller, 2011). In addition, empirical evidence suggests that gubernatorial elections increase the possibility of state proposals of TELs (Seljan & Weller, 2011). Inter-party competition has been found to increase government spending because electoral candidates utilize public benefits to attract citizens and gain victory in close elections (Clingermeyer, 2005). One perspective is that "TELs emerged to create political competition by reducing the ability of monopoly government to control political agendas" (Alm & Skidmore, 1999: 485). Thus, it is expected that the degree of inter-party competition will affect the proposal of TELs as well as passage of TELs. Empirical evidence suggests that states with more professionalized legislatures have higher levels of taxes and spending (Owings & Brock, 2000). In addition, legislative professionalism has had a positive relationship with state and local expenditures (New, 2011).

Since the state legislatures can propose as well as enact TELs, it is expected that a higher degree of legislative professionalism will affect the adoption of TELs (New, 2011).

For socio economic factors, individual income per capita has been frequently adopted as a proxy for state wealth (Bahl & Duncombe, 1993, Clingermeyer & Wood, 1995; Ellis & Schansberg, 1999). Many standard political economy models set a relationship between income level and preferences related to the size of government; that is, proposals of TELs are associated with the gross state income level (Alm & Skidmore, 1999). Particularly, state income growth, which reflects state economic features and one of the primary determinants of TEL passage, is positively associated with passage of TELs (Alm & Skidmore, 1999).

Population indicators have been used to identify demand for public services (Bahl & Duncombe, 1993). Increase in demand for public services usually involves larger spending, thus population density will be negatively associated with adoption of TELs. Empirical evidence suggests that advocates of TEL initiatives in the state of Oregon on average were “older, less educated, and more likely to be blue-collar workers and vote in every election” (Thompson & Green, 2004: 84). Increase in support of TELs comes from parents with school age population as well as from an elderly population (Stein et al., 1983). Previous research suggests that percentage of elderly population (age of 65 and over) and percentage of school age population (age between 5 and 17) is positively associated with proposal of TELs only in initial states (Selman & Weller, 2011). In this respect, population density, percentage of elderly population, school age population will likely affect the adoption process of TELs. Another control variable includes the solid southern states. The solid southern states are perceived to be fiscally conservative, thus it is likely that these states will oppose TELs. These states include Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, Texas, and Virginia.

### **Method of Analysis**

Cox Proportional Hazard Regression is conducted to examine factors of repeated adoption and termination. In addition, Model 1 (agenda setting) and Model 2 (defeated TELs) include limits on property tax, which is different from Model 3 (passage of TELs) that excludes the limits on property tax.

No new states were identified in terms of new TEL failures or adoptions considering event history analysis. Colorado, California, Maine and Washington defeated TELs since 2006, but, they had already proposed and defeated TELs prior to 2006. Thus, this study includes all 50 states and examines the period between 1970 and 2006.

Since this research focuses on the different mechanisms of agenda setting, defeated TELs and enactment of TELs, three separate analyses will be conducted. Each model is independent and intends to explain the unique factors for each model (cases). Even though defeated TELs and passage of TELs are not mutually exclusive, their contexts are expected to be different. Thus, it is appropriate to analyze factors for each case. If failure and adoption were mutually impacted by independent variables that explain exclusive choices by states, then these choices could be contained in one model, but this is not the case.

Especially for agenda setting and enactment failure, this study defined state TELs as constitutory or statutory law, which restricts overall revenues or expenditures. Concretely for the agenda setting and enactment failures, this study includes ballot measures, which restrict overall revenues and expenditures or restrict growth in property taxes. And this study does not analyze proposals or initiatives that merely reduce taxes, “requirements that voters must approve tax increases”, and “legislative supermajority requirements for tax increases” (Rose, 2010: 823). To identify successful enactments, this study has relied on information from the National Conference of State Legislatures (2016) and the study of Seljan & Weller (2011).

The dependent variables are binary variables that represent the agenda setting, enactment failure, and enactment success of state TELs. Data are drawn from the Ballot Measure Data Base of the National Conference of State Legislatures (2016), the Ballotpedia website (2016), studies of Alm & Skidmore (1999), Mullins & Wallin (2004) and Seljan & Weller (2011).

Regarding direct democracy and citizen ideology, citizen initiatives or referendums are measured by the number of initiatives or referendums per year from the Initiatives & Referendum Institute. This research focused on citizen initiatives or veto referendums in order to study the effects of more pure types of democracy. Opinion liberalism is measured by the citizen ideology index established by Berry et al. (1998). State income is measured by the growth rate of real per capita income from 1970 to 2006, in constant 2006 dollars. Population density is from the U.S. Census between 1970 to 2006. Elderly population and school age population are measured by percentage of elderly population (65 and over) and school age population (between 5 and 17).

For regional diffusion factors, imitation is measured by Portion of States with Similar Size of Total Expenditure that previously 1) Propose, 2) Propose and Fail to Pass, 3) Both Propose and Pass TELs. Competition is measured by Portion of Neighboring States that Previously 1) Fail to Propose, 2) Propose and Fail to Pass, 3) Both Propose and Pass TELs. Learning is measured by the Number of States with Increased or Decreased (status quo included) Per Capita Revenue or Per Capita Expenditure, or Per Capita Property Tax Revenue (Models 1 and 2) or Previously Adopted TELs. In addition, south is measured as a binary variable that is coded 1 if it is a southern state and otherwise it is coded zero.

In terms of tax and fiscal factors, tax burden and property tax burden are measured by the average effective tax rate which is defined as the ratio of per capita tax or property tax revenue to per capita state income). Fiscal health is measured by the ratio of total revenues to total expenditures. If a state is under fiscal stress, the ratio of the total revenue to total expenditure will be lower because its expenditures are likely to outweigh its revenues.

Associated with political and institutional factors, government ideology is measured by a government ideology index established by Berry et al. (1998). Inter-party competition is measured by Ranney’s index of state inter-party competition from 1970 to 2006. Folded Ranney’s index ranges from .500 to 1.000. Legislative professionalism is measured by the Squire Index (Squire, 2007).

## **Findings**

[Insert Table 1 Here]

Table 1 provides the findings from event history analysis for the three models. Regarding agenda setting of TELs, imitation, citizen initiatives or referendum, and opinion liberalism are primary factors for explaining the probability of agenda setting. The results of the analysis are consistent with *Hypothesis 5* that the likelihood of a state to propose tax and expenditure limitations increases when states with similar size (expenditure) previously proposed TELs increases. This finding supports the argument that states increase the likelihood of proposing TELs when others similar in budgetary circumstances do so. The finding is also consistent with *Hypothesis 4* that popular liberalism decreases the probability of a state proposing TELs. States with citizen initiatives or veto referendums are more likely to propose TELs, which is consistent with *Hypothesis 3* that the likelihood of states that propose TELs increases when the number of citizen initiatives or veto referendums increases. This result indicates that states with more opportunities for direct democracy are more likely to propose TELs. However, there is no support for tax and fiscal factors in explaining the agenda setting of TELs. The agenda setting process of TELs is better explained by imitation and direct democracy factors.

In terms of enactment failure, competition, citizen initiatives or referendums, total tax burden, gubernatorial election, opinion liberalism, and income growth are primary factors for explaining the probability of defeated TELs. Interstate competition increases the possibility of failure to enact TELs, which is consistent with *Hypothesis 6* that the likelihood that a state will propose and then fail to enact TELs increases when neighboring states have previously proposed and failed to enact TELs. This finding indicates that competition between neighboring states increases the possibility of defeated TELs. More importantly, this result is consistent with the concept of anticipatory competition suggested by Baybeck et al. (2011). Anticipatory competition indicates that the probability of home states adopting TELs decreases when there is less chance that neighboring states will become a monopoly of TELs. In this respect, states also act strategically in adopting TELs as seen from state lottery adoption.

Interestingly, the number of state initiatives and referendums increase the possibility of states' failure to enact TELs. Several states, including Alaska, Arizona, Arkansas, California, Idaho, Maine, Michigan, Massachusetts, Montana, North Dakota, Nevada, Nebraska, Ohio, Oklahoma, Oregon, South Dakota, Utah, and Washington, failed to adopt TELs despite the presence of citizen initiatives. Among these states, Oregon, Idaho, Montana Utah, Maine, Ohio actually enacted TELs by state legislatures rather than through citizen initiatives. Thus, it can be seen that state legislatures (political institutions) still have a crucial impact on the adoption of TELs.

Total tax burden is negatively associated with the failure to enact TELs, which is consistent with the competing *Hypothesis 1* that the likelihood of a state that proposes and fails in enacting of TELs increases with lower levels of overall tax burden and higher levels of property tax burden. Opinion liberalism decreases the possibility that a state will fail in passing a TEL, indicating that more liberal citizens prefer TELs. This finding is contradictory to the conventional expectation; however, it can be seen that liberal citizens in liberal states would prefer TELs, which is evidenced by liberal states such as Massachusetts where TELs were enacted through citizen initiatives. Gubernatorial election and income growth have a negative

relationship with enactment failure so that gubernatorial election year and states with more resources are more likely to enact TELs. In this respect, defeated TELs are highly associated with tax related factors, direct democracy, and regional diffusion factors, and political and institutional factors.

For enactment success, citizen initiatives, referendums, and legislative professionalism are major factors that explain the probability of actual passage of TELs. The number of citizen initiatives or referendums increases the possibility of a state adopting a TEL, which is consistent with the expectation as shown in *Hypothesis 3*, that the likelihood of a state enacting a TEL increases when the citizen initiatives or referendum increase. States with higher levels of legislative professionalism increases the likelihood of passing a TEL. In a practical sense, highly professionalized legislatures such as California, Colorado, and Michigan enacted TELs through citizen initiatives. For instance, Florida's Proposition 1 was initially written poorly, but professionalized legislative staff members rewrote it and made it more reasonable and clear. As such, legislative professionalism plays a crucial role in the adoption of policies. Thus, it can be seen that actual passage of TELs is directly related to direct democracy and legislative professionalism rather than regional diffusion factors.

Overall, the findings of this study reveal that direct democracy and regional diffusion factors such as imitation and competition have a crucial effect on the adoption process of TELs.

### **Discussion and Conclusion**

This study empirically examined the differentiated process of TEL adoptions, particularly focusing on agenda setting for and decision making in the policy process through event history analysis using state data from 1970 to 2006.

During agenda setting, it is likely that imitation plays a significant role in proposing TELs. This result is similar to the previous studies in overall adoption of certain policies (Abbott & Devine, 1992; Dolowitz & Marsh, 1996; Grossback et al., 2004; Olden, 2006). However, this result is the first to reveal that imitation seems to be essential mechanism for agenda setting.

On the contrary, competition has an accrual impact on defeating TELs. This result is also similar to several previous studies (Berry & Berry, 1990, 1992; Berry & Baybeck, 2005; Mesguer & Girardi, 2009; Calcagno et al., 2010; Bayback et al., 2011; Burge & Piper, 2012). However, this study is the first to reveal the different aspects of competition as suggested by Berry & Bay Beck (2005). Regarding the defeated TELs, anticipatory competition explains the failure to enact TELs (Baybeck et al., 2005). That is, states act strategically during the adoption process of TELs.

Overall, this study is the first to reveal the differentiated mechanisms of TELs adoption corresponding with each phase of adoption. More importantly, findings indicate that factors for the adoption process reflect both similarity and difference among agenda setting, defeated TELs, and passage of TELs.

Agenda setting, enactment failure and success are commonly affected by direct democracy. Comparisons among agenda setting, enactment failure and success, imitation, and opinion liberalism particularly affect the agenda setting process. Anticipatory competition, total tax burden, gubernatorial election year, and state income particularly affect enactment failure;

legislative professionalism particularly affects enactment success. In this respect, the comprehensive policy making process of TELs adoption involves an agenda setting process driven by direct democracy, opinion liberalism, and imitation.

Defeated TELs are driven by overall tax burden, gubernatorial election, direct democracy, opinion liberalism, interstate competition, and southern states. Finally, passage of TELs is driven by direct democracy and legislative professionalism. That is, institutions have less influence on the agenda setting process than on decision making as suggested by Zohlnhöfer et al. (2015). This is confirmed by the role of imitation in the agenda setting process, and the role of legislative professionalism. Thus, this study reveals that agenda setting and decision making of TELs are driven by different mechanisms.

Especially, this study reveals that successful passage of TELs are induced by direct democracy and professionalized legislatures rather than regional diffusion factors as shown in agenda setting and enactment failure. This study also reveals the different aspects of competition; anticipatory competition is revealed in the defeated TELs where states behave strategically.

This study contributed to the current literature by linking diffusion framework and the policy stage model to tax policies, and also to comparative politics that show how states act at each stage of the policy process as indicted by this study. Practically, findings from this study also have implications for state governments that intend to adopt tax related policies.

These distinct mechanisms of the adoption process in TELs will provide valuable information to other policy diffusion areas. Future research is recommended to integrate the policy stage model with the diffusion framework in other policy areas.

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Table 1: Event History Analysis of TELs

<i>Variables</i>	Model 1 Agenda Setting		Model 2 Enactment Failure		Model 3 Enactment Success	
	Coefficient	SE	Coefficient	SE	Coefficient	SE
<b>Tax and Fiscal Factors</b>						
Tax Burden	.151	.148	-.278*	.167	.085	.164
Property Tax Burden	-.277	.951	-.524	.759	-.105	.754
Fiscal Health	-2.62	3.97	-3.96	5.41	-.604	4.37
<b>Political and Institutional Factors</b>						
Government Ideology	.002	.018	.034	.022	.003	.014
Gubernatorial Election	.288	.363	-1.10**	.530	.151	.594
Interparty Competition	.018	1.89	.515	1.83	.440	2.01
Legislative Professionalism	1.07	2.63	5.12	3.50	4.94**	1.99
<b>Direct Democracy and Citizen Ideology</b>						
Citizen Initiatives or Referendum	.713***	.133	1.29***	.152	.325**	.141
Opinion Liberalism	-.073*	.021	-.040**	.002	-.029	.026
<b>Socioeconomic Factors</b>						
State Income	-.009	.012	-.004**	.021	-.010	.013
Population Density	.002	.001	-.002	.003	.002	.002
Elderly Population	.020	.122	-.172	.149	-.010	.099
School-Age Population	.053	.221	.163	.162	.052	.254
<b>Regional Diffusion Factors</b>						
Imitation	2.29**	1.14	-3.94	4.82	.824	2.25
Competition	-1.62	1.57	4.53*	2.31	-.515	4.15
Learning(Success)	.908	8.34			-1.47	30.85
Learning(Failure)	-.224	2.37	-.636	3.70		
<b>Other Factor</b>						
South	.313	.687	-1.82*	1.10	.155	.616
<b>N</b>	<b>925</b>		<b>1333</b>		<b>1155</b>	
<b>Log Pseudo Likelihood</b>	<b>-92.87</b>		<b>-36.97</b>		<b>-95.19</b>	
<b>Probability&gt;<math>\chi^2</math></b>	<b>0.00</b>		<b>0.00</b>		<b>0.00</b>	

Notes: \* $p < .10$ , \*\* $p < .05$ , \*\*\* $p < .01$ . Standard error is based on robust standard error